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Van Der Hout
ASSOCIATES LIMITED

ANNUAL REPORT 1969

HIGHLIGHTS

	1969	1968
CONSOLIDATED SALES	$3,532,574	$1,883,535
NET EARNINGS		
before extraordinary items	$ 451,304	$ 182,418
after extraordinary items	$ 418,971	$ 182,418
EARNINGS PER SHARE		
before extraordinary items	$ .54	$ .23
after extraordinary items	$ .50	$ .23
SHAREHOLDERS' EQUITY	$2,226,435	$1,858,988
NUMBER OF SHARES OUTSTANDING	842,166	842,166
NUMBER OF SHAREHOLDERS	1,550	1,663

CORPORATE DIRECTORY

DIRECTORS: ROY A. EDWARDS, *Toronto*
EDWARD E. NOONAN, *Toronto*
JOHN B. VAN DER HOUT, *Toronto*
VICTOR L. VAN DER HOUT, *Toronto*

OFFICERS: JOHN B. VAN DER HOUT, *President*
ROY A. EDWARDS, *Assistant to the President*
VICTOR L. VAN DER HOUT, *Vice-President*
EDWARD E. NOONAN, *Secretary*
MELVYN A. STEIN, *Treasurer*

REGISTRAR AND TRANSFER AGENT: GUARANTY TRUST COMPANY OF CANADA, *Toronto*

AUDITORS: LAVENTHOL, KREKSTEIN, HORWATH AND HORWATH, *Chartered Accountants, Toronto*

LISTED: TORONTO STOCK EXCHANGE / CANADIAN STOCK EXCHANGE

VAN DER HOUT ASSOCIATES LIMITED
HEAD OFFICE, 3600 LAKE SHORE BLVD. W.,
TORONTO 14, ONTARIO

Van Der Hout
ASSOCIATES LIMITED

To Our Shareholders:

The year 1969 was a very important year for Van Der Hout Associates Limited. Sales and earnings reached record highs.

FINANCIAL

We have adopted the equity basis of accounting for our investment in Gabriel of Canada Limited. This method of accounting provides a clearer overall view of Van Der Hout's progress and financial position. Comparative figures for 1968 have been restated accordingly.

Results of the operations of Jaco Catalogue Equipment Limited and its subsidiaries, J. C. Adams Company Limited and Permatex-Pep Limited, acquired late in 1968, have been consolidated for the twelve months in 1969 but included in comparative figures for a three month period only.

Income before extraordinary items for the year amounted to $451,304 or 54 cents per share compared to $182,418 or 23 cents per share in the prior year. Net income, after extraordinary items was $418,971 or 50 cents per share.

Consolidated net sales for 1969 were $3,532,574 compared to $1,883,535 in 1968. The total of all sales under Van Der Hout management amounted to approximately $15.1 million.

J. B. Van Der Hout and J. H. Sanderson, President of JACO, inspect shock absorbers ready for shipment. New plant will increase capacity to 35,000 per day.

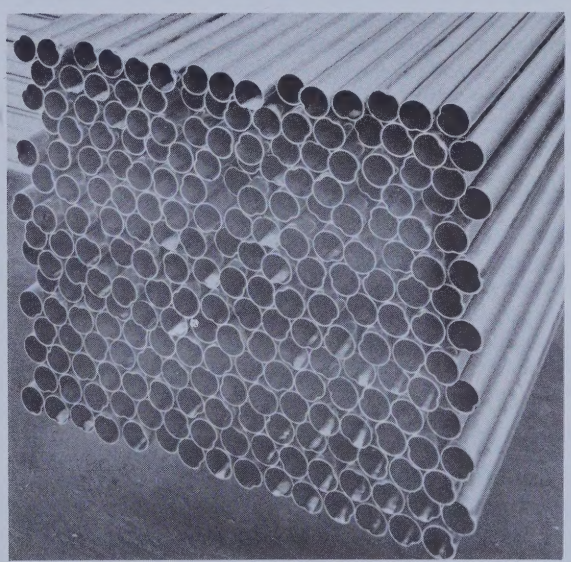
In 1969, the shares of Van Der Hout Associates Limited were listed for trading on the Toronto Stock Exchange.

OPERATIONS

AUTOMOTIVE PARTS MARKET

The addition of approximately 95,000 square feet to Gabriel's Number 3 plant in Etobicoke will be completed this Spring and will increase our production capacity from about 25,000 units per day to 35,000 units.

The new plant will permit the manufacture of our own welded and precison tubing, an integral part of a shock absorber. The expansion will also enable us to compete more effectively for a larger share of the Canada-U.S. defence sharing program by being in a position to produce a size of shock absorber not previously made by us. The Government of Canada is providing assistance in the financing required for the expansion.



Steel tubing manufactured by Goderich Tube and Steel Co. (Canada) Limited at Ajax, Ontario.

Effective July 26, 1969, Gabriel acquired 100 per cent of Goderich Tube and Steel Co. (Canada) Limited, of Ajax, Ontario. Goderich produces tail pipe and exhaust pipe from welded tube of its own manufacture. Its well equipped, 36,000 square foot plant, along with Gabriel's expanded production facilities are expected to provide excellent opportunities for sales growth and for further cost reductions through vertical integration.

During the year, the Nelmor mirror division was phased out, primarily as a result of the deterioration of the after-market for rear-view mirrors when they became standard equipment on automobiles. The disposal of inventories and equipment related to this operation produced a net loss of $24,084 which is included in extraordinary items on the income statement.

A greater percentage of our automotive business this year was directed to the after-market rather than the

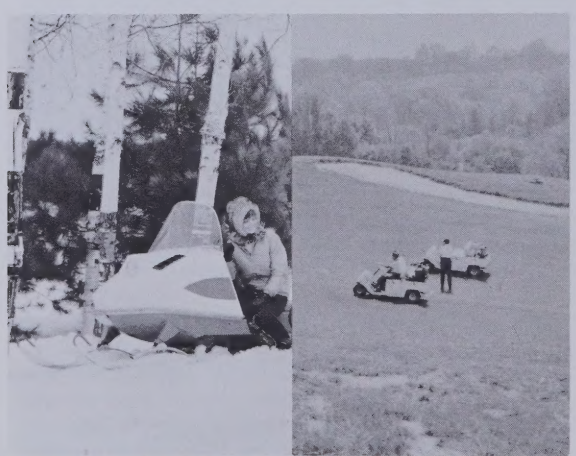
original equipment market as in prior years. This new emphasis on replacement parts is indicative of the longer average life span of automobiles, particularly during periods of declining new car sales. Not only is the after-market a higher-margined area of the Company's activities but it holds the added benefits of providing a hedge against possible cutbacks and labour disputes that adversely affect production for original equipment use.

An agreement has recently been concluded with a major Canadian automobile manufacturer to supply windshield wiping equipment for its replacement parts program.

Over the last two years, the Company has conducted an aggressive marketing program in overseas markets, particularly the European Common Market, in order to enlarge its sales base. This program has been successful, and the Company is presently negotiating with automobile manufacturers in France, Sweden and West Germany for a larger share of that ever increasing market.

RECREATIONAL AND INDUSTRIAL MARKETS

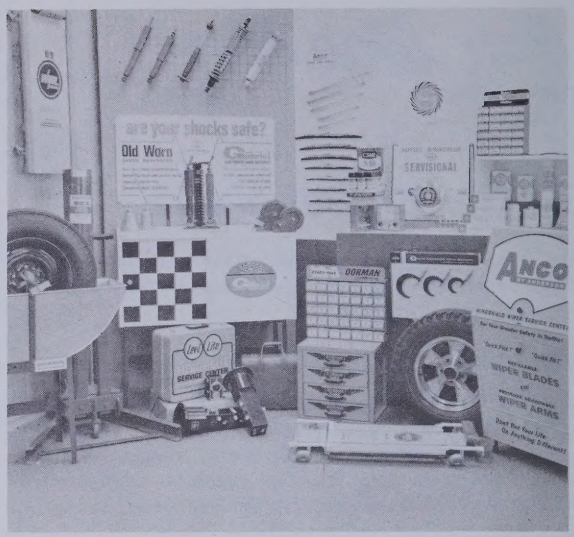
Apart from the automotive industry, we have made considerable inroads into the recreational transportation market. Snowmobiles, boats, golf carts and ski lifts require a variety of products made and distributed by us. Timing gauges, winches, jacks, stabilizers, service kits, shock absorbers, chemicals and lubricants are presently being supplied to this group. The growth prospects in



Parts and accessories for Snowmobiles and Golf Carts form a growing part of Company's recreational sales market.

this area of our activities are rapidly increasing as the recreational market continues to expand throughout North America.

Industrial applications for our products include shock absorbers for electrical generators, railway cars, fire doors and windows. We also supply catalogue desk racks and carrying cases, castered wheels, and chemical compounds. Our sales effort continues to open this relatively new field for us.



Wide range of products for automotive service stations, diagnostic centres and garages.

SERVICE CENTRE AND GARAGE MARKETS

A major product group comprises products and accessories for automotive service centres and garages. Equipment, tools, chemicals and supplies from one or more of our companies are visible in virtually every automotive service station in the country. Signal gongs, tire changers and spreaders, hydraulic jacks, wheel balancers, hoists, creepers, sealants, fillers and additives are but a few of our total product line in this important market area. Rapidly rising labour costs in service station management have created a strong demand for more time-saving devices and products in automotive servicing equipment and we are able to meet this requirement with a sophisticated selection of diagnostic and servicing equipment, chemicals and tools. The outlook for this area of our activities is very favourable.

OUTLOOK

The outlook for Van Der Hout Associates is favourably influenced by several factors already mentioned — vertical integration, expanded sales base, increased production facilities, and growing after-market sales. The Company's greatest potential, we believe, lies in its management team, a group of young, aggressive men who have already demonstrated the ability to improve every aspect of the business and guide the Company to new levels of sales and earnings.

On behalf of the Board of Directors, I express our sincere appreciation to our associates, employees and shareholders for their loyalty and support.

On behalf of the Board of Directors,

J. B. VAN DER HOUT, President.

Van Der Hout

ASSOCIATES LIMITED

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF INCOME

For the year ended December 31, 1969

	1969	1968 (Note 2)
Sales, net	$3,532,574	$1,883,535
Cost of sales	2,398,756	1,470,428
Selling, general and administrative expenses	832,937	398,316
Depreciation and amortization of fixed assets	24,472	17,649
	3,256,165	1,886,393
Income (loss) from operations	276,409	(2,858)
Less:		
Income taxes	123,412	1,975
Minority interest	11,718	(1,962)
	135,130	13
	141,279	(2,871)
Equity in net earnings of Gabriel (Note 3)	310,025	185,289
Income before extraordinary items	451,304	182,418
Less extraordinary items (Note 9)	32,333	—
Net income	$ 418,971	$ 182,418
Per share:		
Income before extraordinary items	54¢	23¢
Net income	50¢	23¢

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Retained earnings at January 1	$1,216,484	$ 516,871
Add equity in accumulated net earnings of Gabriel at December 31, 1967 (Note 1)	—	517,195
Adjusted retained earnings at January 1	1,216,484	1,034,066
Net income	418,971	182,418
	1,635,455	1,216,484
Less Company's share of write-off by Gabriel of excess cost of its investment in subsidiary over equity in net assets acquired	113,213	—
Retained earnings at December 31	$1,522,242	$1,216,484

See accompanying notes.

Van Der Hout

ASSOCIATES LIMITED

(Incorporated under the laws of the Province of Ontario)

AND SUBSIDIARY COMPANIES

ASSETS

	1969	1968 (Note 2)
Current:		
Accounts receivable, trade	$ 332,500	$ 382,599
Sundry receivables and prepayments	41,256	17,351
Merchandise inventory, at lower of cost and net realizable value	1,034,465	1,143,677
Total current assets	1,408,221	1,543,627
Investments and advances:		
Interest in Gabriel of Canada Limited (Note 3)	1,284,485	1,025,984
Loan receivable	10,000	10,000
Marketable securities, at cost	—	4,966
	1,294,485	1,040,950
Fixed (Note 4):		
Property, plant and equipment, at cost	506,921	565,514
Less accumulated depreciation and amortization	107,259	160,874
	399,662	404,640
Other:		
Cash surrender value of life insurance	56,401	55,531
	$3,158,769	$3,044,748

Approved on behalf of the Board of Directors:

J. B. VAN DER HOUT, *Director*

E. E. NOONAN, *Director*

CONSOLIDATED BALANCE SHEET as at December 31, 1969

LIABILITIES

	1969	1968 (Note 2)
Current:		
Bank indebtedness (Note 5)	$ 458,074	$ 252,029
Accounts payable and accrued liabilities	270,134	703,274
Corporation income taxes	49,042	50,721
Minority interest, redeemable in 1970 (Note 6)	24,900	24,900
Total current liabilities	802,150	1,030,924
Long-term debt:		
6% mortgage payable, due June 1, 1975	18,000	22,000
Minority interest (Note 6)	112,184	132,836
SHAREHOLDERS' EQUITY		
Capital (Note 7):		
Authorized:		
1,500,360 Common shares, no par value		
Issued:		
842,166 Common shares	642,504	642,504
Retained earnings	1,522,242	1,216,484
Contributed surplus (Note 8)	61,689	—
	2,226,435	1,858,988
	$3,158,769	$3,044,748

AUDITORS' REPORT

To the Shareholders of
Van Der Hout Associates Limited,
Toronto, Ontario

We have examined the consolidated balance sheet of Van Der Hout Associates Limited and its subsidiary companies as at December 31, 1969 and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated statements present fairly the financial position of the Companies as at December 31, 1969 and the results of their operations and the source and application of their funds for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, after giving effect in that year to the change in accounting practice explained in Note 1, with which change we concur.

Laventhol Krekstein Horwath & Horwath
March 5, 1970. *Chartered Accountants.*

See accompanying notes.

Van Der Hout

ASSOCIATES LIMITED

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

For the year ended December 31, 1969

	1969	1968 (Note 2)
SOURCE OF FUNDS:		
Operations:		
Net income	$418,971	$182,418
Add back items not involving a current outlay or (receipt) of funds:		
Equity in net earnings of Gabriel	(310,025)	(185,289)
Depreciation and amortization	24,472	17,649
Profit on disposal of assets	(3,301)	—
Minority interest in profit (loss)	4,248	(1,962)
Write-off of marketable securities	4,965	—
	139,330	12,816
Proceeds of disposal of fixed assets	24,480	—
Adjustments to prior years' income tax	—	4,350
Proceeds from stock issue	—	300,000
Mortgage payable	—	22,000
Minority interest in net assets of subsidiaries acquired	—	159,698
	163,810	498,864
APPLICATION OF FUNDS:		
Redemption of portion of minority interest	24,900	24,900
Reduction of long-term debt	4,000	—
Additions to fixed assets	41,542	384,684
Cash surrender value of life insurance acquired	—	55,531
	70,442	465,115
Increase in working capital	93,368	33,749
Working capital at beginning of year	512,703	478,954
Working capital at end of year	$606,071	$512,703

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1969

1. Basis of consolidation:

(a) The consolidated financial statements include the accounts of all subsidiary companies.

These are:

Jaco Catalogue Equipment Limited	100% owned
J. C. Adams Company Limited	100% owned
Nelmor Corporation (Canada) Limited	100% owned
Permatex-Pep Limited	51% owned

(b) In 1969 the Company adopted the equity basis of accounting for its investment in Gabriel of Canada Limited and its wholly owned subsidiary, Goderich Tube & Steel Co. (Canada) Limited. Under this principle the Company's equity in the consolidated net earnings of Gabriel has been included in income, and the investment is carried at the Company's equity in Gabriel's consolidated net assets.

The 1969 consolidated statement of income includes the operations of all companies for 12 months with the exception of Goderich Tube & Steel Co. (Canada) Limited which is included in the accounts from July 26, 1969, the effective date of acquisition.

2. Comparative Figures — 1968

The Company and Nelmor Corporation (Canada) Limited changed their fiscal year ends from August 31 to December 31 in 1968. For comparative purposes the accounts of these companies have been restated to reflect the operations for the year ended December 31, 1968.

Jaco Catalogue Equipment Limited, J. C. Adams Company Limited and Permatex-Pep Limited are included in the accounts from September 25, 1968, the effective date of acquisition.

For comparative purposes, the 1968 financial statements have been adjusted to reflect the equity basis of accounting for the investment in Gabriel of Canada Limited.

3. Investments:

The Company owns 49% of the issued common shares of Gabriel of Canada Limited and 49.8% of its issued non-voting preference shares.

The investment in Gabriel is now being accounted for on the equity basis. Management is provided by the Company and Gabriel represents a significant part of the Company's activities. The Company is of the opinion that the disclosure afforded by this method of presentation is both informative and desirable in order to present fairly the Company's financial position and the results of its operations, even though Gabriel is precluded from redeeming preference shares or declaring dividends until such time as loans made to finance its expansion are repaid.

Following is a summary of the consolidated assets and liabilities of Gabriel at December 31, 1969:

Assets	(000's)	Liabilities	(000's)
Current assets	$3,993	Current liabilities	$2,616
Fixed assets (net)	2,839	Long-term debt	1,372
Other	61	Deferred taxes	294
		Equity	
		Van Der Hout	1,284
		Other	1,327
	$6,893		$6,893

4. Land, plant and equipment:

The fixed assets consist of the following:

	Cost	Accumulated Depreciation	Net
Land	$ 56,000	$ —	$ 56,000
Machinery and equipment	147,703	95,629	52,074
Buildings	299,218	11,630	287,588
Tools and dies	4,000	—	4,000
	$506,921	$107,259	$399,662

Depreciation has been provided on the fixed assets as follows:

	Rate	Method
Mobile equipment	30%	Declining balance
Other equipment	20%	Declining balance
Building	2.5%	Straight-line

The additions to tools and dies will be written off in future years at varying rates.

On September 1, 1968 the Company acquired all the issued common shares of Jaco Catalogue Equipment Limited. The excess cost of these shares over equity in net assets acquired, amounting to $246,203 was shown as a separate item on the December 31, 1968 balance sheet. During 1969, supported by appraisals applicable at the time of acquisition, the Company determined that this excess cost was attributable to the fixed assets of Jaco and accordingly, the $246,203 has been allocated to the land and buildings acquired.
The 1968 figures have been restated to reflect this allocation and the resulting increase in depreciation.

5. Bank indebtedness:

A portion of the accounts receivable and inventories are pledged as collateral for the bank indebtedness.

6. Minority interest:

The minority interest consists of:

1. 6,640 6% third preference shares of Jaco Catalogue Equipment Limited — par value $15.	$ 99,600
2. 49% of the issued capital of Permatex-Pep Limited and related retained earnings	37,484
	137,084
Less portion of Jaco preference shares redeemable in 1970	24,900
	$112,184

The Company has given the following undertaking to the preference shareholders of Jaco:

(a) To cause the 6% dividend to be declared each year on the outstanding third preference shares of Jaco.

(b) To cause the redemption of the third preference shares at par value over a period of five years, 20% each year.

In 1969, 1,660 shares were redeemed and the dividend of $7,470 was paid and included as minority interest in the income statement.

7. Stock Options:

The Company has granted options to certain key employees to purchase 50,000 common shares. In addition, the Company has agreed to provide a further 150,000 common shares for key employee options subject only to the necessary approval of regulatory bodies. All options are to be exercisable for eighteen month periods from the following dates:

40,000 @ $4 from October 31, 1969
40,000 @ $5 from October 31, 1970
40,000 @ $6 from October 31, 1971
40,000 @ $7 from October 31, 1972
40,000 @ $8 from October 31, 1973

Based upon the Company's present rate of return and the income which can be imputed upon the proceeds, there would be no dilution of earnings as a result of exercising these options.

8. Contributed surplus:

Represents the Company's equity in Gabriel's contributed surplus which resulted from grants received under a government assistance program.

9. Extraordinary items:

Net loss on disposal of assets of Nelmor Mirror Division, phased out in 1969	$24,084
Write-off of marketable securities	4,965
Listing fee — Toronto Stock Exchange	3,284
	$32,333

10. Commitments:

The Company and its subsidiaries occupy certain premises under leases which expire at various dates up to 1976. Exclusive of certain occupancy costs and escalations resulting from property tax increases, the annual rental commitments are as follows:

1969-1970	$75,559
1971-1976	41,250

The Company has guaranteed a lease which expires in 1977 for premises occupied by Gabriel of Canada Limited. The annual rental, exclusive of certain occupancy costs amounts to $15,935.

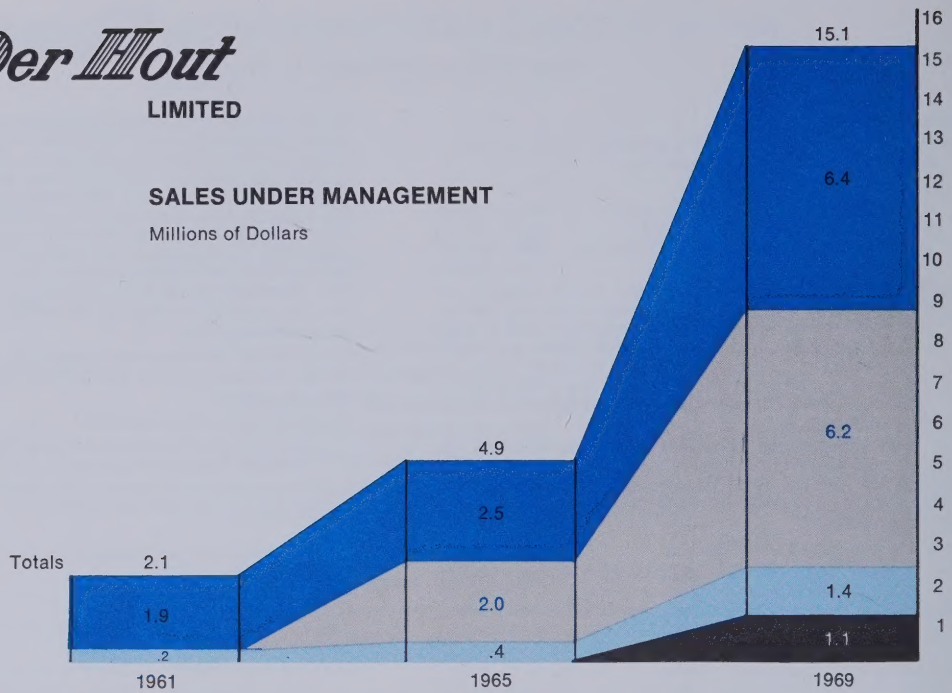
11. Remuneration of directors and senior officers:

Total remuneration of directors and senior officers for the year amounts to $199,000.

Van Der Hout
ASSOCIATES LIMITED

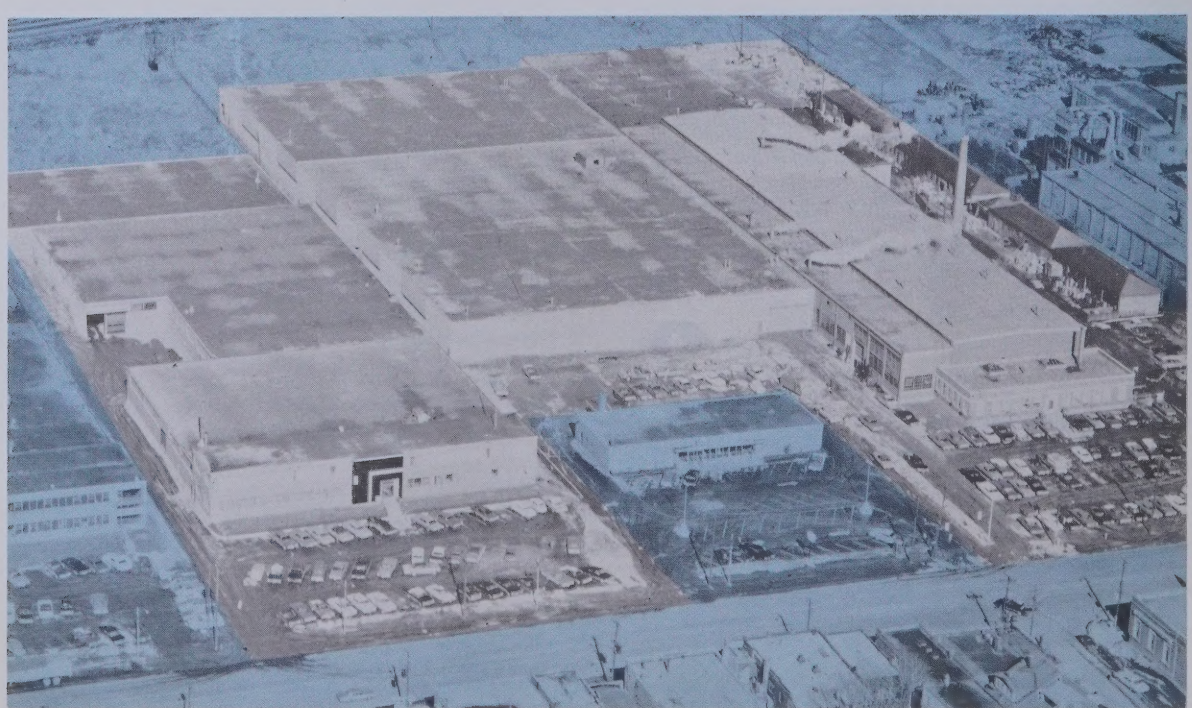
SALES UNDER MANAGEMENT

Millions of Dollars



INCLUDES SALES OF:
Van Der Hout Associates Limited
Gabriel of Canada Limited and its Subsidiary
Jaco Catalogue Equipment Limited and its Subsidiaries
(Inter-company sales of a material nature have been eliminated)

Replacement Auto Parts
Automotive Original Equipment
Service Centre Equipment, Supplies
Recreational, Industrial, Defence, Agricultural



Head Office and Plant in Etobicoke, Toronto 14, Ontario.

AUTOMOTIVE REPLACEMENT MARKET

Hydroshox shock absorbers
Adjustomatic shock absorbers
Adjustable E shock absorbers
Load Carriers
Truck and Bus shock absorbers
Racing shock absorbers
Windshield wiper blades and refills
Windshield wiper arms
Windshield wiper hose
Windshield washers
Radiator pressure caps
Gasoline caps
Oil filler caps
Thermostats and gaskets
Specialty hardware
Throttle ball joints
Brake parts
Push-Pull controls
Copper tubing, fuel line hose
Dash controls, drain plugs
Expansion plugs
Cigar and cigarette lighters
Winches
Tie-Downs and hitches
Sun visors

RECREATIONAL MARKET

Snowmobile timing gauges
Winches
Tie-Downs and hitches
Trailer jacks, stands and stabilizers
Shock absorbers for golf carts
Snowmobile and marine service products kits
Plastic cleaner
CRC-666 (Marine) corrosion resistor, lubricant
Marine Lectra Clean
Shock absorbers for ski lifts

AUTOMOTIVE SERVICE CENTRE AND GARAGE MARKET

Tire changers
Tire spreaders
Tire testers
Hydraulic jacks
Brake Drum lathes
Mobile Brake shops
Disc Brake facing sets
Lathe accessories
Brake shoe grinders and accessories
Engine repair tools — reamers, hones, wrenches, etc.
Wheel balancing equipment
Service station signal gongs
Oilers
Grease and suction guns
Lubrication spouts
Fuel filters
Tire pumps
Hoists
Garage creepers
CRC-556 corrosion resistor lubricant
Lectra-motive cleaner
Asphaltic sealer – undercoating
Silicone lubricant
Micrometers
Dial indicators
Calipers
Torque wrenches
Copper tubing benders, cutters
Crimping tools
Flaring tools
Headlight aimers
Electronic oil testers
Counter catalogue racks
Sealants and chemical service products
Gasket forming compounds
Gasket shellac and cement
Cooling system additives
Engine and transmission additives
Grinding compound
Passenger car bubble balancers
Wheel balancing weights
Automatic air line gauges
Air line fittings
Quick hose couplers
Tire gauges
Radiator fillers
Fluid pumps

AUTOMOTIVE ORIGINAL EQUIPMENT MARKET

Shock absorbers
Tail pipes
Exhaust pipes

AGRICULTURAL MARKET

Shock absorbers

DEFENCE MARKET

Shock absorbers

INDUSTRIAL MARKET

Shock absorbers for electrical generators
Shock absorbers for railway cars
Shock absorbers for fire doors and windows
Catalogue desk racks
Catalogue carrying cases
Index sheets and tabs
Pipe joint compound
Form-A-Gasket
Castered wheels

Van Der Hout
ASSOCIATES LIMITED